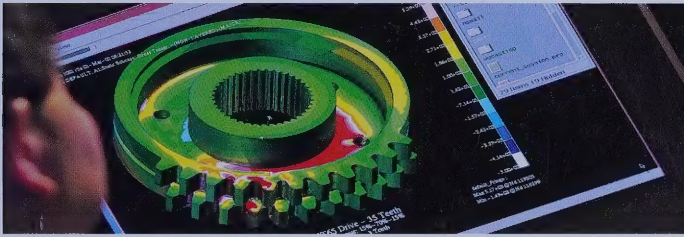
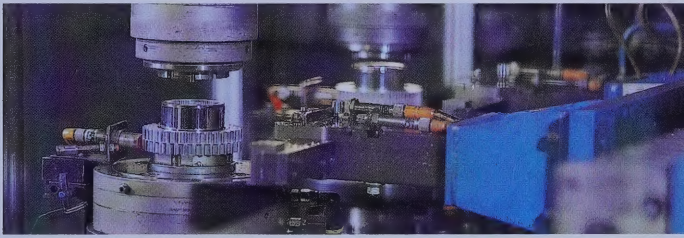
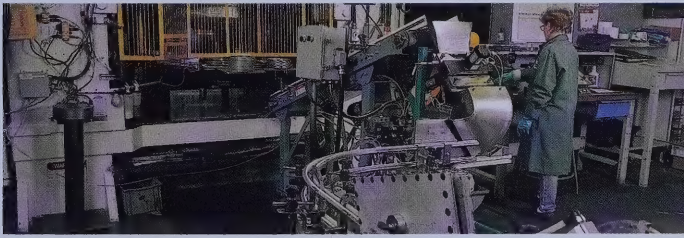
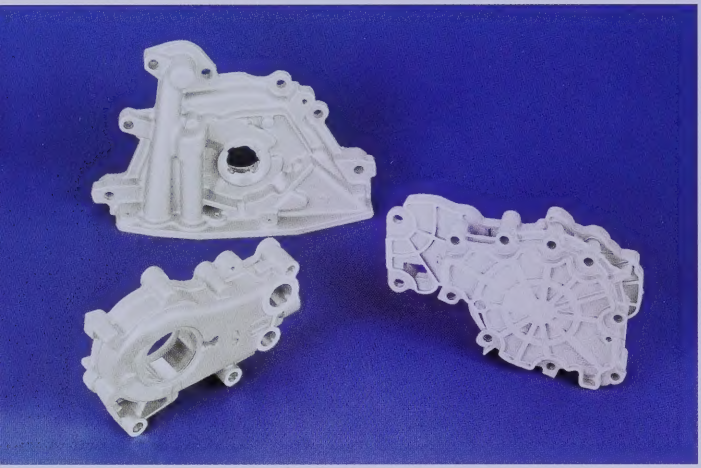
Stackpole
LIMITED







ANNUAL REPORT 2001



STACKPOLE LIMITED *is one of the world's leading manufacturers of highly engineered, technologically differentiated, automotive powertrain systems and components.*

Stackpole has more than 1,500 highly skilled employees at five operating plants in Canada and the United Kingdom.

Stackpole is a public company and its common shares are listed and traded on The Toronto Stock Exchange under the symbol SKD.

Stackpole
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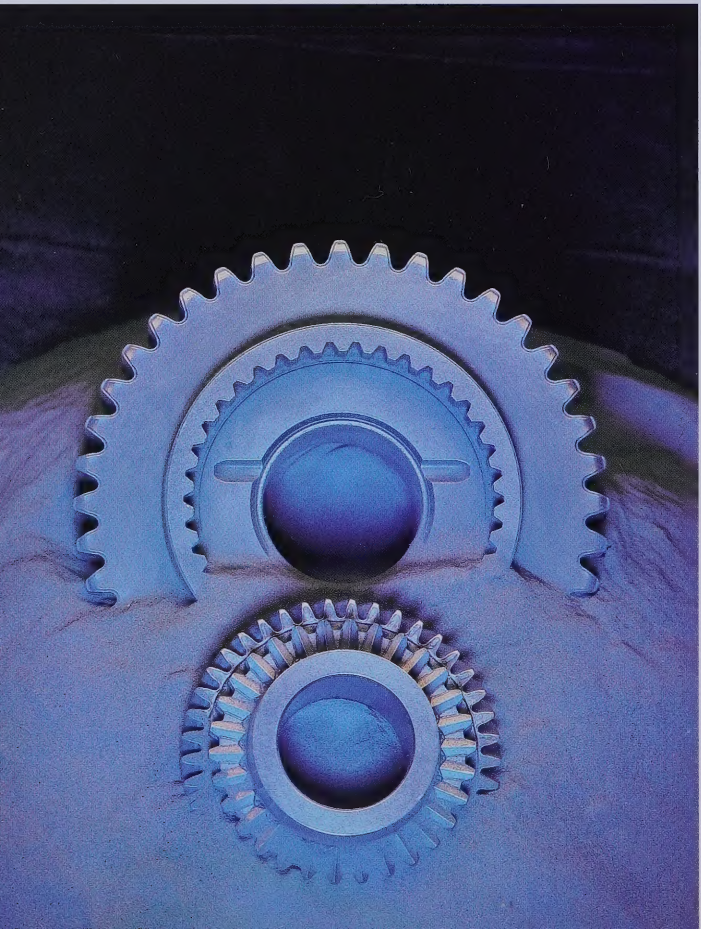


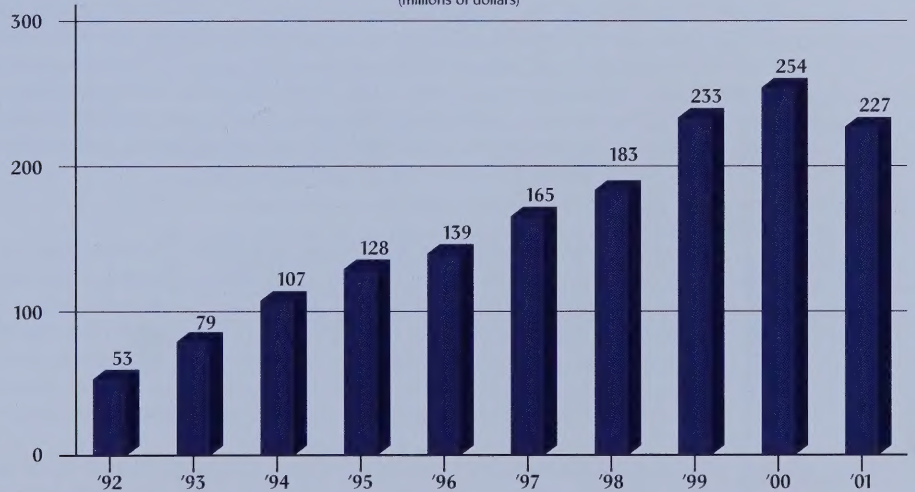
CONTENTS

STACKPOLE LIMITED
FINANCIAL HIGHLIGHTS

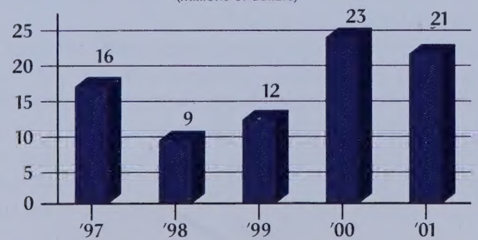
(In thousands of dollars, except per share amounts)

	2001	% change	2000
INCOME			
Sales	$ 227,242	(10.4)	$ 253,575
Income before Interest, Taxes, and Recovery of restructuring and other charges	20,901	(10.1)	23,255
Net Income	11,137	(22.9)	14,452
Per Common Share	1.15	(23.3)	1.50
Return on equity	9.4%		13.4%
Cash Provided by Operating Activities	36,725	(17.2)	44,335
Capital Expenditures	16,516	19.7	13,801
FINANCIAL POSITION			
Total Assets	$ 191,927	(6.2)	$ 204,526
Total Debt	28,245	(42.2)	48,866
Shareholders' Equity	122,150	6.1	115,159
Net Debt to Total Capitalization	14.7%		24.3%

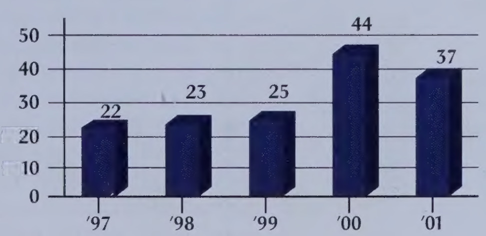
SALES
(millions of dollars)



OPERATING INCOME
(millions of dollars)



CASH FLOW FROM OPERATIONS
(millions of dollars)



Robert J. Lander
President and Chief Executive Officer
Stackpole Limited

Letter To Shareholders

The year 2001 was very successful for Stackpole and its stakeholders. Great strides were made in key facets of the business and excellent financial and operational performance was achieved despite a very challenging environment that included notably lower industry volumes. In the process, we outperformed much of our auto parts peer group and positioned Stackpole for continued growth.

While we are pleased with our progress in 2001, we are even more excited about our considerable growth prospects and believe that we are in an excellent position to capitalize on the unique opportunity that exists for Stackpole as a result of the prevailing trends in the automotive powertrain market:

✦ The carmakers are increasingly OUTSOURCING the production and engineering of key powertrain components and modules to third-party suppliers with full-service capabilities and differentiating technology. Powertrain outsourcing represents a $130 billion global market opportunity. Within this powertrain market, Stackpole is focused on specific products that have been identified by carmakers as strong candidates to be outsourced and where Stackpole has a strong competitive position.

✦ Along with outsourcing comes MODULARIZATION; the trend for suppliers to provide more complete modules and systems to carmakers rather than just standalone components. Supplier's benefit from the increased value added content and from having design and engineering responsibility. The higher value products provide a large market potential to drive our growth.

✦ The carmakers' pervasive need to increase the powertrain performance while continuing to reduce cost can only be achieved by employing breakthrough TECHNOLOGY. Stackpole's proprietary and industry leading technology is revolutionizing the design and production of key products and is successfully displacing conventional processes.

These trends have combined to provide Stackpole with a significant market opportunity. We believe that for the products we have chosen to focus on, Stackpole has the leading market share and technology in a potential market of $4 billion. This immediate market is just 10% penetrated with the balance being produced in-house by the carmakers and by conventional processes. Stackpole is focused on capturing an increasing share of this immediate market while maintaining our market leadership and expanding our target market through technology and capability enhancements. Unique proprietary technology and a steadfast focus on manufacturing proficiency will enable Stackpole to deliver attractive margins in a competitive industry.

Progress in 2001

Stackpole maintained net income at the record level achieved in 2000 (adjusting for the restructuring recovery recognized in 2000) despite a $26 million sales decline resulting from an 11% reduction in North American vehicle production. The impact of the sales decline occurred entirely in the first half of the year as our customers corrected for overstocked inventory levels and lower vehicle sales. The earnings impact in the first quarter was significant as Stackpole facilities adjusted to the lower production level. In the second half of the year, however, sales recovered to a level comparable to the prior year and Stackpole achieved a 40% improvement in operating income compared with the same period in 2000.

For the past two years, Stackpole has maintained a steadfast focus on building the organization, improving operating efficiency and implementing our lean manufacturing operating system - the Stackpole Production System. This approach has enabled us to reduce material waste by 40% and lower "Production Lead Time" (the time from receipt of raw material to shipment of finished goods) by 50%. Our operating and financial results clearly reflect the benefits of this strategy and its successful implementation.

Stackpole's strong cash flow has enabled us to substantially reduce our debt levels and strengthen our balance sheet. This operating performance, combined with a strong financial position, puts the company in an excellent position and bodes well for 2002, as Stackpole's historically strong sales growth will return with the introduction of new products. In 2001, Stackpole secured several new oil pump and power transmission components programs and will launch new business with annual sales of $60 million in 2002. This new business maintains our market leadership in our core product segments and reinforces our confidence in the sizable growth opportunity that exists.

Of equal importance to our strong financial performance has been our continued focus on customer satisfaction. In 2001, Stackpole achieved the best performance amongst its competitors as judged by our customers and was once again nominated as a General Motors Supplier of the Year.

We have continued to expand our "full-service" product capability to further support our customers' needs with regards to outsourcing, modularization and technology. This is a key element of our growth strategy, and in 2001 we commenced machining of planetary gear carriers on behalf of our customers and expanded our design, engineering and testing capability for this product.

Our product development efforts have led to a significant number of new programs with the potential to fuel growth in all our core product segments. These opportunities are the result of customer outsourcing initiatives as well as product conversions that take advantage of Stackpole's proprietary technology. Furthermore, these programs are being considered by our customers to reduce cost on existing transmission programs as well as for new transmissions in development. We are confident that many of these projects will lead to production contracts and will enable Stackpole to maintain strong growth in line with its historic 15% per year growth rate.

We are also pursuing opportunities to add new customers and expand our product offering by building on our proprietary technologies. In 2001, we were pleased to add Borg Warner Torque Transfer to our customer list and to be certified as a full-service supplier to Ford for transmission oil pumps. These contract successes are largely the result of our proprietary powdered metal technology and innovative pump engineering that sets us apart from the competition.

Looking Ahead

While industry production volumes may decline somewhat in the first half of 2002 compared to the annualized level that prevailed in the fourth quarter of 2001, North American vehicle sales are expected to stabilize and begin to strengthen in the latter part of the year. Beyond 2002, economic and demographic trends are expected to support a modest industry growth trend over the next several years.

While fluctuations in industry volumes will naturally impact Stackpole's short-term financial results, we believe these effects will be temporary and our consistent focus on building the organization, lean manufacturing and technology will enable us to increase our market penetration and deliver steadily improving results over time. Stackpole's long-term success will be more dependent on the specific growth opportunities in our core market and the successful execution of our strategy than on the level of overall vehicle sales.

Ultimately it takes great people to build a great company. The success we have achieved so far is a direct result of the capability, commitment and drive of our people to be the best and achieve world-class performance. We will continue to build an organization and a culture that enables our people to excel.

I would like to express a very special thank you, on behalf of all Stackpole employees and the Board of Directors, to Lyle Hall, who has chosen to retire from the Board of Directors. Lyle has been involved with Stackpole Limited in various capacities since its inception almost fifty years ago. His steady guidance and passion for Stackpole is thoroughly reflected in the successes that we have achieved. Fortunately we are pleased to welcome John Beard to our Board. John's vast experience with the Board of Directors of many public companies including Reebok, Timberland and Millipore Corporation will prove to be a strong asset as we implement our growth strategy. I would similarly like to thank Dick LeVan who has also chosen not to stand for re-election to the Board. Dick's counsel has been invaluable during the past two years.

In the coming year we will maintain a steadfast focus on our proven growth strategy. It is this focus that will enable us to deliver consistent performance and position Stackpole for long-term success in a growing and dynamic market.

Thank you for your continued support. I look forward to reporting on our progress in the near future.

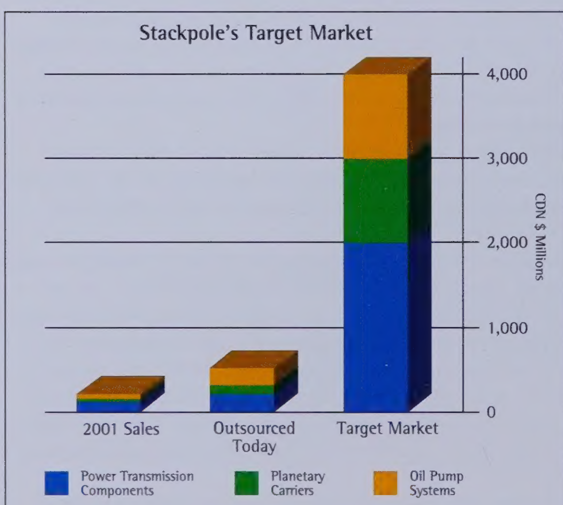
Robert J. Lander
President and Chief Executive Officer
April 3, 2002

The Opportunity: Capitalize on the on-going transformation of the global automotive powertrain market using Stackpole's proprietary technology.

Stackpole's Market Opportunity: The $130 billion automotive powertrain market

At Stackpole our focus is on developing innovative products, using a proprietary and advantageous process technology, for the automotive powertrain market. Globally, the total value of the automotive powertrain market exceeds $130 billion per year. The vast majority of this value is manufactured by the automotive OEMs who continue to produce most of their requirements for powertrain components in-house in conjunction with the assembly of the powertrain systems including engines, transmissions and drive-trains. The automotive powertrain remains the least outsourced segment of the global automotive industry and it is estimated that less than 30% of the value of the North American powertrain market is currently outsourced.

Evidence of the on-going transformation of the automotive powertrain market abounds. The need for increased powertrain performance coupled with global competitive pressures that demand total vehicle cost reductions are leading to outsourcing of powertrain systems and components. This trend is in turn reinforced by the compelling product design and economic benefits of modularization, whereby systematically designed, assembled and tested modules replace traditional components production. Modularization creates a new paradigm that enables outsourcing, opens the door for new technology, and increases value added content to suppliers.

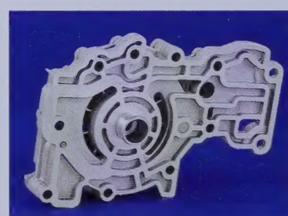


The result is an unprecedented opportunity for growth for powertrain suppliers who have the technical capability to deliver powertrain module solutions and the process technology that can lead to sustainable manufacturing cost savings. With these as its competitive advantages, Stackpole is ideally positioned to benefit from increased outsourcing of the automotive powertrain market.

Existing Product Offering: Market share leader in a $4 billion market

Success in the global automotive industry demands excellence and focus. The rapid pace of technological change has inspired Stackpole's strategy of focusing on products where we see significant growth opportunities and where we also have a leading position in both technology and market share.

Today, Stackpole has the largest market share in North America for engine and transmission oil pumps, planetary gear carriers, and certain power transmission components including powder metal gears, sprockets and synchronizer components. Furthermore, we see significant potential for growth in each of these products as today, more than 70% of the market value is produced inside the OEMs.

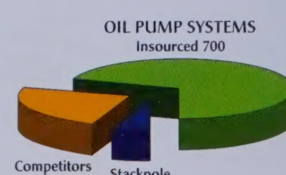


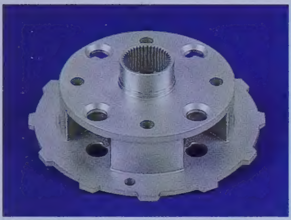
Engine and Transmission Oil Pumps: A $1 billion market opportunity

Oil pumps provide hydraulic pressure and lubrication and hence are critical systems within engines, automatic transmissions, all wheel drive transfer cases and continuously variable transmissions. Stackpole has developed ready-to-assemble oil pump modules that have provided carmakers with improved performance through innovative designs and significant cost reductions through state of the art manufacturing processes. Through these developments, Stackpole has become the market leader in this rapidly outsourcing field.

With a current order backlog of $64 million to begin production in 2002 and 2003, Stackpole will more than double its annual sales from oil pump systems over the next two years. Further programs under development are expected to generate additional growth in 2004 and beyond.

With less than 30% of this market outsourced today and a leading position in full service design and engineering, this market represents an outstanding opportunity for Stackpole.





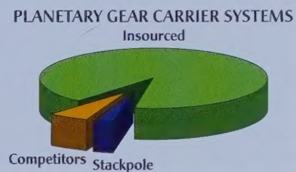
Planetary Carrier Systems: A $1 billion market opportunity

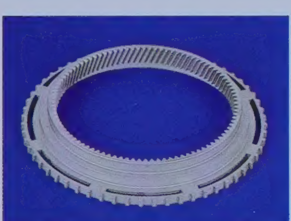
Since the introduction of power transmission technology, automotive engineers have used planetary gear sets to manage the speed and direction of torque from the power source to the desired output. Whether the power source is the internal combustion engine or the alternative energy sources under development, planetary gear systems will remain a critical element in the performance of the powertrain.

Planetary gear sets have been typically designed around gear carriers produced from machined iron castings but recent developments in powder metal manufacturing technologies are altering the market. Stackpole has successfully displaced cast and machined carriers with sinter-brazed powder metal carriers in high torque four wheel drive and automatic transmission applications by providing significant cost reduction and better performance through increased stiffness, and improved pinion gear life.

The potential to leverage our position as supplier of the critical component within the system, to increase our value added content and expand our systems responsibility, highlights the strategic potential of planetary carrier systems to Stackpole. We are convinced that the combination of our powder metal technology with the fact that the planetary carrier system market is only 10% outsourced today will provide a compelling growth opportunity for Stackpole.

The significant number of development programs that we are currently working on supports our confidence in this market potential.



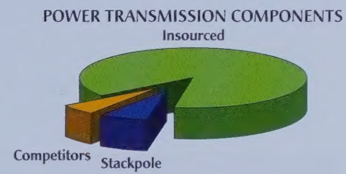


Power Transmission Components: A $2 billion market opportunity

For more than 20 years, Stackpole has been systematically proving that powder metal technology can achieve the mechanical properties of wrought steel but at significantly lower cost. We hold world-wide patents covering powder metal alloys, processes and our unique densification technology and millions of products in the field. Furthermore, we have conclusively proven that the economic benefits of the net shape powder metal process can be combined with product performance that exceeds the most demanding applications in the automotive industry. In addition, our proprietary process for roll-forming steel synchronizer sleeves is widely accepted as a highly cost effective alternative to forgings.

The result is that Stackpole has firmly established a presence in the $2 billion market for automotive transmission components such as gears, sprockets, pulleys, clutch components and synchronizer components.

Our approach to this market will be to continue to select applications where complex shape and dimensional requirements provide a compelling economic advantage to powder metal compared with traditional machining intensive processes. This strategy has already generated sales for Stackpole in excess of $100 million annually. In 2002, we will take another step forward with the launch of a new four wheel drive transfer case sprocket for the leading four wheel drive systems manufacturer in North America. Our opportunity for growth beyond 2002 is strengthened by the unprecedented number of new development programs currently underway for new gear and power transmission component applications.



New customers and product opportunities

Stackpole supplies a diverse range of products to such customers as General Motors, DaimlerChrysler, New Venture Gear, Borg Warner, ZF and Getrag. We will continue to explore opportunities to expand the supply of our core products to these customers in the years ahead. We see significant additional potential to develop new customers and resulting growth. Although our supply to Ford is quite limited today, we have been named by Ford as a full service supplier of transmission oil pumps and have commenced engineering development. Securing production orders from this development activity is a critical goal of Stackpole. Also, as Stackpole partners with successful powertrain integrators, we will diversify our OEM customer base.

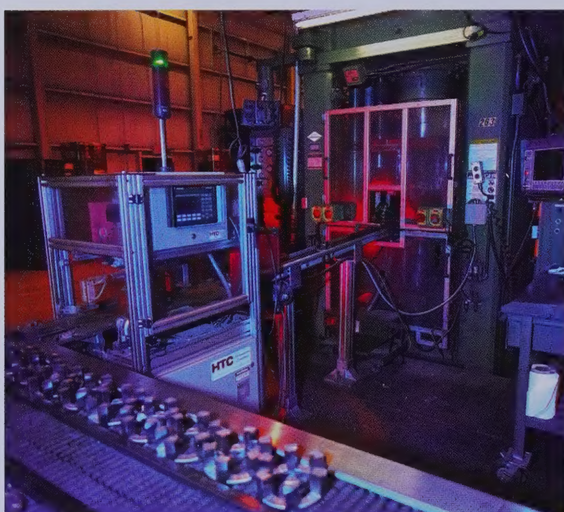
Equally important, we continue to investigate opportunities to introduce our technology to the European automotive market. Having now completed a successful technology development program for manual transmission gears with PSA Citroën, we are confident that the European market will provide good potential for Stackpole in the longer term. Finally, we will continue to look for opportunities to apply our technology in new product areas within the $130 billion global automotive powertrain market where we have a competitive advantage and thus expand our market potential beyond the current $4 billion target market. In this regard, we are presently working on several development programs with good potential for commercialization in the years ahead.

The Strategy: Focus on building the organization, and developing full service product capability and breakthrough process technology.

In order to seize the growth opportunity and realize its full potential, Stackpole will remain focused on executing our strategies to enhance our organizational, operational, and technological capabilities.

- ✦ Build the ORGANIZATION and CULTURE to enable people to excel and continue to develop the STACKPOLE PRODUCTION SYSTEM.

- ✦ Continually enhance our FULL SERVICE PRODUCT CAPABILITY and our PROPRIETARY PROCESS TECHNOLOGY in order to differentiate our capability and provide our customers with products that have performance and cost advantages and that meet our growth and profitability objectives.



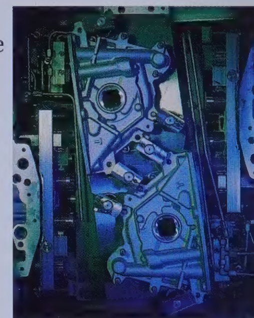
Building the Organization and Culture

The key to an effective organization is getting the right people in the right places and building a culture that enables people and the organization to excel. Stackpole fosters a team-based entrepreneurial culture that is committed to excellence and being the best in class. Each division has a specific product mandate that supports Stackpole's overall market strategy. An empowered team, passionate about realizing the division's full market potential, leads each division. Division accountability and entrepreneurial spirit is complemented by a company-wide sharing of best practices and a consistent approach embodied in the Stackpole Production System.

The Stackpole Production System

INSPIRED PEOPLE · CONTINUOUS SPS IMPROVEMENT · ROBUST PROCESSES · LEAN OPERATIONS

The Stackpole Production System (SPS) is an holistic business operating system that is built on the best principles of Lean Manufacturing and complementary management tools. It encompasses all aspects of how we run our business on a daily basis including our people systems, our manufacturing processes and our operating procedures and practices.



SPS starts with the organization structure and culture to engage all our people in the goal of systematically eliminating waste and Continuous Improvement. SPS encompasses how we achieve robust and capable processes that produce quality products on a consistent and cost competitive basis. It also defines the procedures and practices we use to achieve predictable results in a standardized and consistent manner.

While SPS encompasses procedural and process activities, success depends largely on the cultural change that occurs when people are inspired to take ownership for their work environment and continuously improve it. The elements of SPS are aligned to support the production associates and visual tools are used to identify and eliminate all forms of waste. What sets lean manufacturing apart is the emphasis on employee involvement in all elements of the workplace and the improvement of operations. Accordingly, an emphasis on the knowledge and capability of our employees through ongoing training and communications has been an important step in successfully implementing SPS.

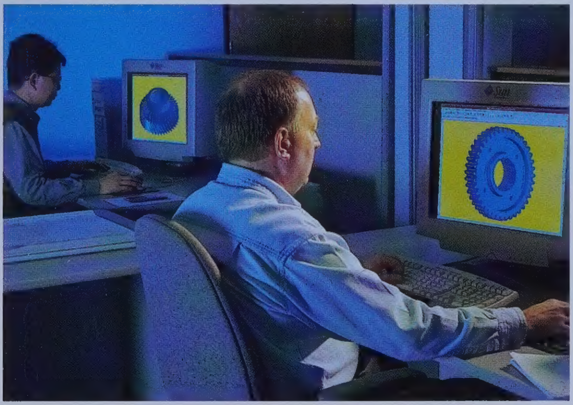
The next step has been the alignment of our manufacturing organization with the goals of SPS. We have added personnel skilled in the principles of lean manufacturing to champion our efforts and we have commenced the replacement of the traditional shop floor supervisory structure with multi-functional work teams. This organization – committed to continuous learning for our employees and structured around informed and empowered work teams – will drive continuous improvement and propel Stackpole in the years ahead.

Full service product capability

Stackpole's growth opportunity is predicated on the powertrain outsourcing and modularization trends currently underway in the industry. Our customers are not only outsourcing more of the production of powertrain components, they are increasingly looking to us to provide complete modules and systems as well. As this trend evolves, only those suppliers that can deliver full service product capability will be able to provide the engineering, design and testing resources that the OEMs require.

Our ability to capitalize on our growth opportunity thus depends on our success in expanding our full service product capability. These include deep technical personnel resources, world-class design and testing technology and the manufacturing processes that produce ready to assemble modules.

In each of our core product areas we have made significant strides to enhance our full service product capability. From our state of the art CAD/CAM capability to product and assembly testing facilities, we can offer complete design and engineering services in oil pumps, planetary gear carriers, and power transmission components including gears and synchronizer components. In addition, we have the experience to collaborate with OEM design teams to integrate our activity with the overall powertrain engineering process. Finally, we have the demonstrated capability to provide the complete system assembly and deliver a complete and tested module to the OEM powertrain plant, ready to assemble, on a just in time basis.



Proprietary Technology

An intensive focus on industry leading and breakthrough technology has long been Stackpole's recognized strength. Recognition has come from such diverse sources as the 1999 Pace Award for innovation, and the MPIF Grand Prize in the Ferrous Powder category for the most innovative powder metal application as judged by the International P/M Design Competition in three of the past four years. But the most significant recognition of Stackpole's process technology has come from our customers who have consistently placed their trust in us through the award of new business developed from our proprietary technology.

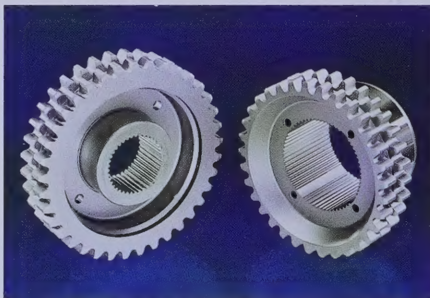
In the field of powder metallurgy, we have pioneered high temperature sintering, unique alloys for high strength applications, and our Select-Dens (TM) process for densifying cost effective powder metal products to meet or exceed the mechanical properties of machined steel. Each of these unique technologies is directed at the most critical requirement of automotive designers - better performance at significantly lower cost.

In addition to patent protection in each of our core proprietary process technologies, Stackpole has a significant advantage over our competitors through our extensive operating experience in the application of these technologies to high volume production. This proprietary know-how, gained through the successful production of millions of products provides Stackpole with a lasting competitive edge.

Our capability with precision machining and heat treatment processes is now evident across our full range of products, where we achieve tolerances that meet the most demanding in the automotive industry.

As we expand our systems, diversify our product offering and enhance our process technology, we will continue to maintain a clear competitive advantage and provide our customers with the best value.

Where do Stackpole's Products go?

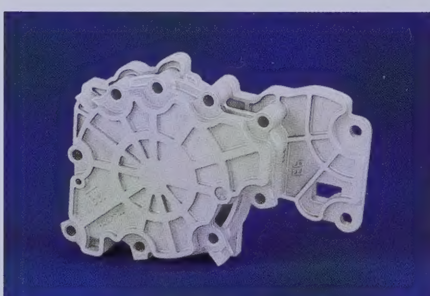


Transmission oil pump, sprockets and clutch plates

Pontiac Bonneville

Engine oil pump – Transmission pump gears and clutch plates – Four wheel drive planetary gear carriers – Synchronizer systems

GMC Sierra



Transmission oil pump, sprockets and clutch plates

Buick Rendezvous

Automatic transmission clutch plates and carriers
Four wheel drive planetary gear carriers

Cadillac Escalade

STACKPOLE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2001 AND 2000

The following provides management's discussion and analysis of the results of operations and liquidity and financial resources of Stackpole Limited for the years ended December 31, 2001 and 2000 and is intended to provide additional information on the Company's performance, financial position and outlook. This discussion should be read in conjunction with the consolidated financial statements and other material presented in this Report.

OVERVIEW

The Company operates primarily in one industry, the design, manufacture and sale of automotive powertrain components and systems for the automotive vehicle manufacturers or their Tier 1 powertrain system suppliers. The Company has developed proprietary technologies in each of its three operating segments, powder metal transmission components, oil pump systems, and roll-formed steel components. Each segment operates in a unique competitive environment with future growth prospects determined by the Company's success in developing and applying the particular technologies to meet the requirements of the Company's global powertrain customers.

In 2001, the automotive powertrain industry continued to exhibit certain significant trends that have affected Stackpole. These trends include, outsourcing of powertrain components by automotive OEM's, modularization of components into fully designed systems, globalization of powertrains and intense competition. Stackpole's strategy, as described in the Report to Shareholders on pages 2 to 8 of this Annual Report, is intended to capitalize on the opportunities resulting from these industry trends, strengthen the Company's competitive position, and generate increasing shareholder value.

RESULTS OF OPERATIONS

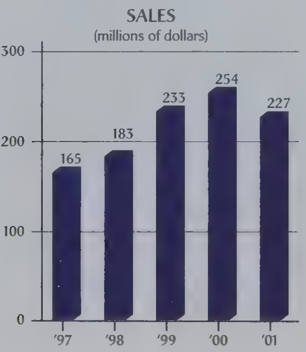
Sales

Stackpole's sales for the year ended December 31, 2001, of $227,242,000 decreased by $26.3 million or 10.4% from 2000. The sales decline was the direct result of lower automotive industry production volumes particularly by Stackpole's major customers General Motors and DaimlerChrysler who produced respectively, 10% and 11% fewer vehicles in 2001 compared with 2000. The reduced sales from the lower industry production were principally evident in the first half of 2001with particular effect in the first quarter of 2001 when sales decreased by 25.5% on a year over year basis. In the second half of 2001, new content from the increasing volume on certain engine and transmission oil pump and transmission clutch plate programs offset the industry production decline. With the attainment of full production volume on these new programs in the fourth quarter, Stackpole's sales increased by 6.5% in the fourth quarter 2001 compared with the fourth quarter 2000.

Sales by Operating Segment
($ 000's unless noted)

	2001	2000
Powder Metal Transmission Components	**155,695**	178,981
Oil Pump Systems	**54,718**	56,310
Roll-formed Components	**22,068**	26,962
Inter-segment Elimination	**(5,239)**	(8,678)
Consolidated Sales	**227,242**	253,575

The decrease in sales for the year ended December 31, 2001, affected the Company's operating segments differently with Powder Metal Transmission Components ("PMTC") sales decreasing 13%, reflecting the industry production decreases discussed above. Oil Pump System ("OPS") sales decreased by less then 3% with lower industry production offset by higher volumes on the new oil pump system programs for DaimlerChrysler. Roll-formed Components ("RFC") inter segment sales to PMTC decreased by 40%, as a result of inventory reduction by PMTC in addition to significant volume reductions on the synchronizer assemblies supplied by PMTC to North American customers. RFC sales in 2001 to external customers decreased by 8% from the prior year due to the lower UK sterling to Canadian dollar exchange rate and modest decreases in European automotive production volumes.



STACKPOLE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2001 AND 2000

Stackpole continues to be significantly affected by the production volumes achieved by General Motors ("GM") and DaimlerChrysler ("DC"). In 2001, direct sales to GM and DC accounted for 28% and 22% of total sales. Including sales to Tier 1 powertrain system suppliers who in turn supply GM and DC, production sales to GM and DC totaled approximately 53% and 28% of 2001 sales, compared with 58% and 25% in fiscal 2000. The increase in the proportion of sales from DC resulted from the new engine and transmission oil pump and transmission clutch plate programs that reached full production in the fourth quarter 2001. For 2002, the Company estimates that its sales by customer will continue at similar percentages as 2001.

In 2001, 81% of the Company's sales from its Canadian operations representing $169,511,000 were exported to the United States and Mexico compared to 87% or $187,076,000 in 2000. Approximately 50% of these sales were denominated in U.S. dollars in each of 2001 and 2000. Stackpole manages its U.S. currency exposure largely through a structured hedging program and through the purchase of some materials and components denominated in U.S. dollars. The Company's hedging program can extend up to five calendar years with a decreasing proportion of the net exposure hedged in future years. At December 31, 2001 the Company had in place forward foreign exchange contracts to sell U.S. $109,700,000 through 2004.

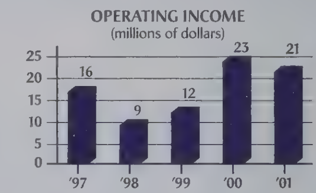
Income Before Interest and Taxes

($ 000's unless noted)

	2001	2000
Gross margin	**49,683**	54,693
Gross margin %	**21.9 %**	21.6 %
Less:		
Depreciation and amortization	**22,499**	23,711
Recovery of restructuring and other charges	–	(3,534)
Research and development expenses, net	**6,283**	7,727
Income before interest and income taxes	**20,901**	26,789

Income before interest and taxes of $20,901,000 in fiscal 2001 decreased by $2,354,000 or 10% from 2000 after excluding the impact of the $3,534,000 recovery of restructuring and other charges recorded in 2000. The reduction in income before interest and taxes can be traced to the $26.3 million sales reduction discussed above with the impact of the lower sales somewhat offset by higher gross margins and reduced depreciation and research and development expenses.

Generally, Stackpole expects that reductions in sales will negatively affect gross margins in its facilities. This is due to the fixed cost structure of Stackpole's processes where manufacturing costs and a significant portion of labour costs are not directly variable with short-term changes in production volumes. In 2001, the decline in margins associated with a sales reduction was evident in the first half when sales decreased by 20% and gross margins declined from 21.1% to 19.6%. In the second half, with sales virtually unchanged from the prior year, efficiency improvements and cost reduction initiatives led to a significant increase in gross margins to 23.9% in the second half of 2001 compared with 21.6% in 2000. For the year taken as a whole, the result was the overall improvement in gross margins to 21.9% in 2001 from 21.6% in 2000.



The effect of improved operating efficiencies on gross margins was evident in the Company's PMTC and OPS operating segments. PMTC income before interest and taxes operating margins improved from 10% to 10.9% as a result of cost reduction measures to reduce labour and other manufacturing costs. At OPS, operating margins improved from 8.2% to 8.8%. At RFC the 18% year over year sales decrease was such that operations fell significantly below the break even volume level resulting in an operating loss of $1,968,000 for 2001 compared with a loss of $251,000 in 2000.

The decrease in depreciation and amortization to $22,499,000 from $23,711,000 was due primarily to a reduction in amortization of $1,504,000 of deferred development costs.

The Company maintains its strong commitment to research and development as a means of competing through differentiated products and proprietary processes. In 2001, expenditures on R&D less customer recoveries amounted to $7,560,000 or 3.3% of sales compared to $9,026,000 or 3.6% in 2000 with the reduction attributable to an increase of approximately $1,400,000 in customer recoveries. Net research and development expenditures of $6,283,000 in 2001 and $7,727,000 in 2000 are shown net of government grants of $1,277,000 and $1,299,000 respectively. The principal component of the government grants is investment tax credits for scientific research and experimental development. While the Company claims tax credits based on management's interpretation of the applicable legislation, these claims are subject to audit by federal and provincial jurisdictions. The Company has also entered into a partnership agreement with the Government of Canada that will see the Company receive up to $1 million over five years to help fund specific research and development. If the technology developed from the research is commercially successful, the Government will receive a 2% royalty on gross sales, to a maximum of the amount advanced. At December 31, 2001, the Company has claimed $973,000 under this program. Any future royalties payable will be accounted for as an expense against the related sales in the period in which they occur.

STACKPOLE LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2001 AND 2000

Interest Expense

The Company's interest on long-term debt expense decreased in 2001 to $3,863,000 compared to $5,634,000 in 2000. The lower interest costs resulted from the reduction in average borrowings and reduced interest rates. The excess of cash flow from operating activities over cash flow used in investing activities enabled a reduction in average outstanding borrowings from $70 million in 2000 to $54 million in 2001. The average interest rate incurred on Stackpole's bank debt was approximately 7.5% in 2001 compared with 8.0% in the comparable period of 2000. The reduction in average interest rates reflected decreases in market interest rates that impacted the Company's floating rate debt as well as the reduced interest rate banking spread on the variable interest term debt.

Net Income

The net income of $11,137,000 for the year ended December 31, 2001, compares with net income of $14,452,000 in 2000. Excluding the impact of the $3,333,000 after-tax recovery of restructuring and other charges recorded in 2000, the 2001 net income is virtually unchanged from the prior year. The tax provision for 2001 as a percentage of income before tax at 34.6% compared with 31.7% in 2000, is consistent with the expected rate of approximately 35% after giving effect to the manufacturing and processing income deduction and the federal large corporations tax. The effective tax rate in 2000 was reduced by the recovery of restructuring charges, which was not recognized for tax purposes.

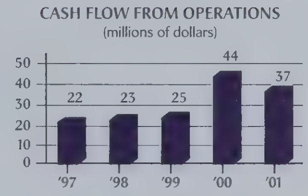
The number of shares outstanding decreased to 9,111,438 as of December 31, 2001 from 9,627,651 at the beginning of the year. During 2001, 71,787 common shares were issued under the Company's share purchase plan for senior management and 588,000 common shares were repurchased by way of an Issuer Bid. For both 2001 and 2000 the number of dilutive shares calculated in accordance with the Company's accounting policy for earnings per share was negligible. On a per share basis, the net income for the year ended December 31, 2001 of $1.15 compares to $1.50 in 2000 or $1.16 after excluding the $0.34 after-tax impact of the recovery of restructuring and other charges recorded in 2000.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow from Operations

($ 000's)

	2001	2000
Net income	**11,137**	14,452
Add items not involving current cash flows	**25,948**	30,549
	37,085	45,001
Changes in non-cash working capital	**(360)**	(666)
Cash provided from operating activities	**36,725**	44,335



Cash flow from operations before changes in non-cash working capital was $37,085,000 in 2001 compared with $45,001,000 in 2000. The lower cash flow from operations can be traced to the reduced net income, principally due to the recovery of restructuring and other charges that was realized in 2000, combined with reduced non-cash charges for depreciation and future income taxes. During 2001, non-cash working capital was virtually unchanged from the prior year. An increase in accounts receivable of $3,582,000 reflected the significant increase in sales in the November and December 2001 period compared with November and December 2000. The higher accounts receivable and a decrease in accounts payable of $1,614,000 was almost fully offset by the elimination through collection of the $1,687,000 income tax recoverable from 2000 and a $3,955,000 year over year reduction in inventories that reflected continued efforts to implement lean production methods in each of the Company's facilities.

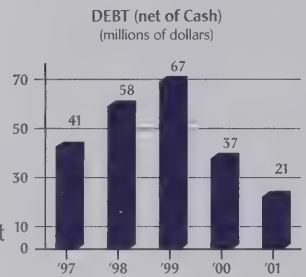
Cash Flow used in Investing Activities

($ 000's)

	2001	2000
Additions to property, plant and equipment	16,516	13,801
Proceeds on disposal and other	(167)	181
Cash used in investing activities	16,349	13,982

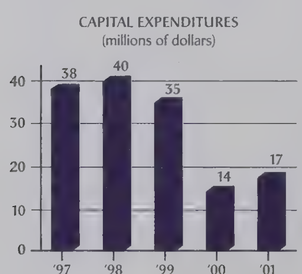
Capital expenditures of $16,516,000 in 2001 increased by $2,715,000 compared with $13,801,000 in 2000. Capital expenditures included $4,400,000 to provide additional powder metal compaction, sintering, and machining capacity to support new programs in the PMTC operating segment as well as $6,700,000 for machining and assembly capacity to support new oil pump programs in the OPS operating segment. The remainder of the capital expenditures of approximately $5,400,000 related to various productivity improvement programs at each of the Company's facilities. With current commitments for capital expenditures related to new production programs of $10,300,000 and additional new program capital expenditures of approximately $10,000,000 anticipated for 2002, the Company expects that total capital expenditures for 2002 will be approximately $30 million.

Financing Resources



During 2001, the Company's excess of operating cash flow over its capital expenditures enabled a significant reduction in debt. In addition to the required repayments of $1,175,000 on its fixed interest term debt, the Company prepaid $19,400,000 of variable interest term debt. At December 31, 2001, unused and available credit facilities consist of $25,000,000 under the revolving credit facility. In 2002, the Company has required repayments under the fixed interest term debt of $1,271,000. The Company expects to finance its capital expenditure program in 2002 entirely from cash generated from operations and from the existing and unutilized lines of credit.

In December 2001, the Company completed an Issuer Bid under which it repurchased 588,000 shares for total consideration of $4,998,000. The share consideration and issuer bid expenses totaling $5,178,000 have been recorded as a reduction in Share capital of $2,005,000 and a reduction in Retained earnings of $3,173,000. The repurchase of shares was financed from cash on hand and largely accounts for the year over year reduction in cash and cash equivalents of $4,801,000.



OUTLOOK

North American automotive production volumes, decreased by approximately 10% from the historically high levels of 1999 and 2000. For 2002, most economic forecasts indicate that a further reduction in North American automotive production volumes are likely although the magnitude of the volume decline is uncertain and will be greatly affected by conditions in the North American economies generally. Although overall automotive production volumes affect Stackpole's sales, the volumes achieved on specific programs on which Stackpole has high content are most critical. In this respect, the market success of General Motors cars and light trucks and DaimlerChrysler light trucks can be expected to significantly determine Stackpole's sales and profitability in the short-term.

In the longer term, management believes that Stackpole's sales and profitability will be positively impacted by the successful introduction of new products as the Company implements its growth strategy. In 2002, several new product programs will commence production that will result in significant sales growth. In summer 2002, Stackpole will launch three new powertrain oil pump programs, a four wheel drive powder metal sprocket program, and a planetary gear carrier program. By late 2002, these programs are expected to reach full production with annual sales of approximately $60,000,000.

Forward Looking Statements

The contents of this MD&A and other information in this annual report, contain statements, which, to the extent that they are not recitations of historical fact, constitute "forward-looking statements" under applicable securities law. The words "estimate", "expect", "believe", "anticipate" and similar expressions are intended to identify forward-looking statements. Such forward-looking information involves important risks and uncertainties that could materially alter results in the future from those expressed in any forward-looking statements made by, or on behalf of, the Company. Persons reading this MD&A are cautioned that such statements are only predictions and actual results may differ materially from those anticipated in the forward-looking statements.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Stackpole Limited have been prepared by management who is responsible for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles, and, where appropriate, reflect estimates based upon judgments of management. All financial information presented elsewhere in the Annual Report has been prepared by management to ensure that it is consistent with that contained in the consolidated financial statements.

Stackpole Limited's policy is to maintain systems of accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors, through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is comprised solely of outside directors, meets regularly with financial management and external auditors to review accounting, auditing and financial matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The independent auditors have full and unrestricted access to the Audit Committee.

Gary S. Love
Vice President, Finance,
Chief Financial Officer,
Secretary and Treasurer

Gary R. LeBlanc
Corporate Controller

Oakville, Ontario
February 15, 2002

Auditor's Report

To the Shareholders of Stackpole Limited

We have audited the consolidated balance sheets of Stackpole Limited as at December 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
February 15, 2002

STACKPOLE LIMITED
CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(Dollars in thousands)

	2001	2000
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 7,144**	$ 11,945
Accounts receivable	**24,924**	21,342
Inventories	**11,242**	15,197
Income taxes recoverable	**–**	1,687
Other current assets	**1,803**	1,721
	45,113	51,892
PROPERTY, PLANT AND EQUIPMENT (Note 2)	**145,856**	150,950
OTHER ASSETS (Note 3)	**958**	1,684
	$ 191,927	$ 204,526
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 26,072**	$ 27,686
Current portion of long-term debt (Note 4)	**1,271**	1,175
	27,343	28,861
LONG-TERM DEBT (Note 4)	**26,974**	47,691
FUTURE INCOME TAX LIABILITIES (Note 7)	**15,460**	12,815
	69,777	89,367
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	**31,064**	32,447
Retained earnings	**89,334**	81,370
Foreign currency translation adjustments	**1,752**	1,342
	122,150	115,159
	$ 191,927	$ 204,526

APPROVED BY THE BOARD:

Darroch Robertson

Darroch A. Robertson
Director

David G. Vice
Director

STACKPOLE LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2001 and 2000

(Dollars in thousands except for earnings per share amounts)

	2001	2000
Sales	**$ 227,242**	$ 253,575
Manufacturing, selling, general and administrative expenses	**200,058**	222,593
Recovery of restructuring and other charges (Note 6)	–	3,534
Research and development expenses, net (Note 1)	**6,283**	7,727
Income before interest and income taxes	**20,901**	26,789
Interest on long-term debt	**3,863**	5,634
Income before income taxes	**17,038**	21,155
Income taxes (Note 7)	**5,901**	6,703
Net income	**$ 11,137**	$ 14,452
Retained earnings, beginning of year	**81,370**	66,918
Reduction in retained earnings on redemption of shares (Note 5)	**(3,173)**	–
Retained earnings, end of year	**$ 89,334**	$ 81,370
Earnings per share: (Note 5)		
Basic	**$ 1.15**	$ 1.50
Diluted	**$ 1.15**	$ 1.50

STACKPOLE LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2001 and 2000
(Dollars in thousands)

	2001	2000
OPERATING ACTIVITIES		
Net income	**$ 11,137**	$ 14,452
Non-cash items:		
Depreciation and amortization	**22,499**	23,711
Future income taxes	**3,290**	6,809
Other	**159**	29
Changes in non-cash operating working capital items	**(360)**	(666)
Cash provided by operating activities	**36,725**	44,335
FINANCING ACTIVITIES		
Repayments of long-term debt	**(20,621)**	(30,687)
Issuance of common shares for cash	**622**	311
Repurchase of shares for cancellation	**(5,178)**	–
Cash used in financing activities	**(25,177)**	(30,376)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(16,516)**	(13,801)
Proceeds from sale of plant and equipment	**226**	10
Other	**(59)**	(191)
Cash used in investing activities	**(16,349)**	(13,982)
Decrease in cash and cash equivalents	**(4,801)**	(23)
CASH AND CASH EQUIVALENTS		
– BEGINNING OF YEAR	**11,945**	11,968
– END OF YEAR	**$ 7,144**	$ 11,945
Cash and cash equivalents is comprised of:		
Cash	**$ 7,144**	$ 5,586
Short-term investments	**–**	6,359
	$ 7,144	$ 11,945
Supplementary Information:		
Income taxes paid	**$ 1,704**	$ 1,140
Interest paid	**$ 4,153**	$ 5,599

STACKPOLE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

(columnar amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies from the dates of acquisition. All significant intercompany balances have been eliminated on consolidation.

USE OF ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash balances and short-term investments in bankers' acceptances and short-term commercial paper with maturities of ninety days or less. Short-term investments are carried at cost, which approximates market value.

INVENTORIES

Inventories are valued at the lower of average cost and net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less any related investment tax credits. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is calculated principally on a straight-line basis with estimated useful lives for buildings of 40 years and for machinery and equipment from 3 to 10 years. For equipment purchased for major product introductions, the Company uses the units-of-production method of depreciation.

OTHER ASSETS

Other assets include certain development costs incurred on major new products which are deferred and amortized on a units-of-production basis beginning in the first year of commercial production. They also include debt issuance costs, which are amortized on a weighted average method over the terms of the related debt, and patents, which are amortized on a straight-line basis over a period of 10 years.

REVENUE RECOGNITION

Revenue from the sales of manufactured products is recognized upon shipment to, or acceptance by, customers depending on the terms of the customer purchase order.

FOREIGN EXCHANGE

Assets and liabilities of foreign subsidiaries, all of which are self-sustaining, are translated using the exchange rate in effect at the year end and revenues and expenses are translated at the average rate during the year. Foreign currency translation adjustments are deferred and included as a separate component of shareholders' equity.

Foreign currency transactions are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Foreign exchange gains and losses on transactions are reflected in income except for gains and losses on forward currency exchange contracts used to hedge future sales denominated in foreign currency. Gains or losses on these contracts are deferred and recorded in sales as the related hedged sales occur.

EMPLOYEE FUTURE BENEFITS

The Company recognizes the liability and expense for all employee future benefits in the reporting period in which an employee has provided the service that gives rise to the benefits and accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:

The cost of pensions earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 22 years.

INCOME TAXES

The Company uses the asset and liability method for computing future income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences). Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in net income in the period

STACKPOLE LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000
(columnar amounts in thousands of dollars)

(SIGNIFICANT ACCOUNTING POLICIES continued)

that includes the substantive enactment date. Material changes in tax rates could result in volatility in net income in the periods affected. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

RESEARCH AND DEVELOPMENT

Research expenditures are expensed as incurred, as are development expenditures that do not meet the criteria for deferral under Canadian generally accepted accounting principles. These expenditures are net of government grants and tax credits of $1,277,000 and $1,299,000 in 2001 and 2000, respectively. The Company claims tax credits based on management's interpretation of the applicable federal and provincial tax legislation. These claims are subject to audit by the applicable tax authorities.

STOCK-BASED COMPENSATION PLANS

The Company has two stock-based compensation plans, which are described in Note 8. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of shares outstanding during the year. The diluted earnings per share calculation increases the number of shares used in the calculation to give effect to the dilutive impact of options outstanding. The increase in the number of shares used in the diluted earnings per share calculation is determined using the treasury stock method.

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

December 31, 2001	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,408	$ –	$ 2,408
Buildings and improvements	19,197	5,630	13,567
Machinery and equipment	237,956	114,686	123,270
Construction in progress	6,611	–	6,611
	$ 266,172	$ 120,316	$ 145,856

December 31, 2000	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,408	$ –	$ 2,408
Buildings and improvements	17,377	4,909	12,468
Machinery and equipment	224,121	93,973	130,148
Construction in progress	5,926	–	5,926
	$ 249,832	$ 98,882	$ 150,950

3. OTHER ASSETS

Other assets consist of the following:

	2001	2000
Development costs	$ –	$ 4,459
Debt issuance costs	–	567
Patents	1,541	1,488
	1,541	6,514
Accumulated amortization	583	4,830
	$ 958	$ 1,684

4. LONG-TERM DEBT

Long-term debt consists of the following:

	2001	2000
Variable interest term debt	$ 19,890	$ 39,336
Fixed interest term debt at 7.40%, due June 30, 2004 repayable in 47 blended monthly payments of $154,000 starting August 1, 2000 and a balloon payment of $5,000,000 on June 30, 2004	8,355	9,530
Revolving credit facility of $25,000,000 due June 30, 2002	–	–
	$ 28,245	$ 48,866
Amounts due within one year	1,271	1,175
	$ 26,974	$ 47,691

The variable interest term debt is a $20,000,000 facility (2000- $55,000,000) for which the outstanding balance is repayable as follows: $12,445,000 on June 30, 2003, and $7,445,000 on June 30, 2004.

At December 31, 2001 and 2000, the interest rate on the variable interest term debt was bankers' acceptance rate plus two per cent, and on the revolving credit facility was bankers' acceptance rate plus one and a half per cent. At December 31, 2001 and 2000, the interest on a portion of the Company's variable interest term debt had been fixed under interest rate swaps (Note 11).

The variable interest term debt, fixed interest term debt and revolving credit facility are secured by a debenture and a fixed and floating charge on all of the Company's assets. In addition, the Company is required to maintain certain covenants.

The annual amounts of principal payments required to meet long-term debt obligations are as follows:

2002	$ 1,271
2003	13,812
2004	13,162
	$ 28,245

(columnar amounts in thousands of dollars)

5. SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares and an unlimited number of First and Second Preference Shares, issuable in series. To date, the Company has not issued any preference shares.

A reconciliation of the issued common shares of the Company follows:

	2001 Number of Shares	2001 Stated Value	2000 Number of Shares	2000 Stated Value
Balance at beginning of year	9,627,651	$ 32,447	9,595,251	$ 32,136
Shares issued for cash from 1993 Stock Option Plan and Key Employee Share Trust (Note 8)	–	–	32,400	311
Shares issued under Employee Share Purchase Plan (Note 8)	71,787	622	–	–
Shares repurchased for cancellation	(588,000)	(2,005)	–	–
Balance at end of year	9,111,438	$ 31,064	9,627,651	$ 32,447

A reconciliation of the number of shares used in the earnings per share calculation follows:

	2001 Number of Shares	2000 Number of Shares
Average number of shares per basic earnings per share calculation	9,652,844	9,604,497
Effect of dilutive options outstanding	25,616	10,218
Average number of shares per diluted earnings per share calculation	9,678,460	9,614,715

6. RECOVERY OF RESTRUCTURING AND OTHER CHARGES

	2001	2000
Recovery of loss on notes receivable	$ –	$ 3,029
Recovery of severance costs	–	505
	$ –	$ 3,534

In August 2000, the Company received U.S. $2,000,000 cash, preference shares, and warrants in settlement of certain notes receivable that had been provided for in 1999. The net proceeds received (Canadian $3,029,000) were recorded as income in 2000. As no tax benefit was recorded when the notes were provided for in 1999, no tax expense was recognized on the recovery. Also in 2000, the Company recognized a recovery of $505,000 relating to severance costs that had been recorded in 1999 as a result of personnel attrition that reduced the requirement for severances to complete a reorganization plan.

7. INCOME TAXES

The provision for income taxes consists of the following:

	2001	2000
Current	$ 2,611	$ (106)
Future	3,290	6,809
	$ 5,901	$ 6,703

Significant components of future income taxes are as follows:

	2001	2000
Future income tax liabilities		
Property, plant and equipment	$ 20,327	$ 19,464
Other	1,672	1,248
	21,999	20,712
Less future income tax assets		
Investment tax credits	4,340	5,899
Corporate minimum tax paid	1,065	1,401
Losses carried forward	709	495
Other	425	102
	6,539	7,897
	$ 15,460	$ 12,815

The Company's effective income tax rates have been determined as follows:

	2001	2000
Canadian statutory income tax rate	42.8 %	44.0 %
Recovery of notes receivable with no related tax effect	–	(6.2)
Manufacturing and processing deduction	(9.0)	(8.6)
Foreign rate differential	(1.5)	–
Large corporations tax	1.7	1.6
Other	0.6	0.9
	34.6%	31.7%

8. STOCK-BASED COMPENSATION PLANS

At December 31, 2001, the Company had three stock-based compensation plans, which are described below.

Employee Share Purchase Plan

On May 10, 2001 the Company's shareholders approved the adoption of a share purchase plan (the "Share Plan") under which the Company may grant to eligible participants the right to purchase, at fair market value, common shares which have an aggregate purchase price that is equal to or less than the eligible participant's annual performance bonus. The aggregate number of common shares that may be issued pursuant to the Share Plan shall not exceed 300,000 common shares.

(columnar amounts in thousands of dollars)

(STOCK-BASED COMPENSATION PLANS continued)

Stock Option Plan

Under the 1993 Stock Option Plan (the "Plan"), the Company may grant options to its directors, officers and certain key employees of the Company and its affiliates for up to 1,393,869 common shares. Under the Plan the exercise price of each option equals the market price of the Company's common shares on the date of grant. Options under the Plan vest at 20% per annum, in arrears on a cumulative basis, and expire no later than ten years from the date the options are granted. On May 10, 2001, the Company's shareholders approved resolutions to increase the number of common shares of the Company that may be issued pursuant to the Plan from 1,393,869 to 1,943,869 and the amendment of the vesting provisions such that vesting occurs at 20% per annum in arrears and if specified share performance targets are achieved.

Options are automatically cancelled, after a specified amount of time, when the optionee leaves the employment of the Company or ceases to qualify under the Plan. If the Company's parent, or its controlling shareholders, ceases to own at least 35% of the Company, all issued and outstanding options will become fully vested and immediately exercisable.

A summary of the options outstanding under the Company's Plan is as follows:

	2001		2000	
Options	**Shares**	**Weighted-Average Exercise Price**	**Shares**	**Weighted-Average Exercise Price**
Balance at beginning of year	898,141	$11.38	931,541	$11.97
Granted	315,000	10.36	125,000	8.27
Exercised	–	–	(32,400)	9.59
Terminated	(5,100)	11.77	(126,000)	13.12
Balance at end of year	1,208,041	$11.11	898,141	$11.38
Options exercisable at December 31	583,941	$11.50	457,741	$11.35

Options outstanding at December 31, 2001 consist of the following:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price**	**Number Exercisable**	**Weighted-Average Exercise Price**
$7.75	105,000	9 years	$7.75	21,000	$7.75
9.125	60,000	3 years	9.125	60,000	9.125
9.30	70,000	8 years	9.30	28,000	9.30
10.00 – 11.00	510,041	7 years	10.06	211,141	10.08
12.25 – 12.70	175,000	7 years	12.64	100,000	12.67
13.00	72,000	5 years	13.00	75,000	13.00
13.25 – 13.40	150,000	7 years	13.30	60,000	13.30
13.75	30,000	10 years	13.75	–	13.75
20.00	36,000	6 years	20.00	28,800	20.00
	1,208,041			583,941	

At December 31, 2001, options outstanding include 420,000 performance-based options that will vest only upon the common share price reaching certain target levels that range from $12 to $30 per share.

Key Employee Share Trust

In 1993 the Company issued 253,271 common shares for $0.01 consideration to the Key Employee Share Trust (the "Trust"). The Trust issued options to acquire the shares owned by it for nominal consideration to certain directors, officers, and key employees of the Company and its affiliates on substantially the same terms and conditions as the options granted by the Company under the Plan. Options to acquire three common shares from the Trust were issued for every seven options to buy common shares issued in May 1993.

A summary of the Key Employee Share Trust is as follows:

	2001	**2000**
Balance at beginning of year	84,918	88,518
Exercised	–	3,600
Balance at end of year	84,918	84,918

All options to acquire the shares held by the Trust have a purchase price of $0.01 and expire in May 2003. At December 31, 2001, all options on the Trust shares are exercisable.

(columnar amounts in thousands of dollars)

9. EMPLOYEE FUTURE BENEFITS

The Company has a number of defined benefit and defined contribution plans providing pension benefits to most of its employees. The Company has no benefit plans other than pension plans.

DEFINED CONTRIBUTION PLANS

The total expense for the Company's defined contribution plans is as follows:

	2001	2000
Plans providing pension benefits	$ 175	$ 118

DEFINED BENEFIT PLANS

Information about the Company's defined benefit plans, in aggregate, is as follows:

	2001	2000
Plan Assets		
Market value at beginning of year	$ 21,789	$ 20,098
Actual return on plan assets	(1,286)	67
Employer contributions	2,311	1,592
Employee contributions	427	422
Benefits paid	(1,219)	(390)
Foreign exchange rate changes	278	-
Market value at end of year	$ 22,300	$ 21,789
Accrued benefit obligation		
Beginning of year	$ 24,634	$ 21,849
Current service cost	1,799	1,662
Interest cost	1,667	1,513
Benefits paid	(1,219)	(390)
Actuarial (gains) losses	18	-
Foreign exchange rate changes	294	-
Accrued benefit obligation at end of year	$ 27,193	$ 24,634
Funded Status		
Plan deficit	$ 4,893	$ 2,845
Unamortized net actuarial loss	(4,523)	(1,507)
Unamortized transitional obligation	214	219
Accrued benefit liability	$ 584	$ 1,557
Benefit plan expense		
Current service cost, net of employee contributions	$ 1,372	$ 1,240
Interest cost	1,667	1,513
Expected return on plan assets	(1,694)	(1,574)
Amortization of net actuarial loss	9	-
Amortization of transitional obligation	(12)	(10)
Net benefit plan expense	$ 1,342	$ 1,169

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows: (weighted average assumptions as at December 31)

	2001	2000
Discount rate	7.0%	7.0%
Expected long-term rate of return on plan assets	8.0%	8.0%
Rate of compensation increase	4.0%	4.0%

10. COMMITMENTS

At December 31, 2001, the Company has commitments for major capital expenditures under purchase orders and contracts amounting to approximately $10,300,000. The Company also has a commitment for the purchase of nitrogen, for use in the production process, amounting to guaranteed payments of approximately $700,000 per year to 2013.

Minimum lease payments under various operating lease commitments are as follows:

2002	$ 1,640
2003	1,294
2004	760
2005	588
2006	533
Thereafter	2,373
	$ 7,188

(columnar amounts in thousands of dollars)

11. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and short-term obligations approximate their respective fair values because of the near-term maturity of these instruments. The estimated fair values of the long-term debt, forward currency exchange and interest rate swap contracts are based on public trading values where available, or where not available, with reference to values for similarly traded instruments with similar features.

The carrying amounts of long-term debt at December 31, 2001 and 2000 were $28,245,000 and $48,866,000, with comparable fair values of $27,938,000 and $48,908,000, respectively.

CURRENCY RISK

In conducting its business, the Company uses forward currency exchange contracts to manage the risks arising from fluctuations in exchange rates. All such instruments are used for risk management purposes only and are not held for trading purposes. The use of these financial instruments is approved and monitored by the Company's Board of Directors.

At December 31, 2001, the Company had outstanding forward currency exchange contracts as follows:

	Contract Expiry	Aggregate Contract Amount		Unrealized Gain (loss) on Contracts	
		2001	2000	**2001**	2000
Sell US$ for Cdn$	2002-2004	US$ 109,700	US$ 133,000	(11,254)	(3,282)
Purchase DM for Cdn$	2002	–	DM 616	–	7
Sell US$ for UK	2002	US$ 840	US$ 1,500	13	61
Sell Euro for UK	2002	Euro 2,760	DM 1,500	131	1

The amounts included under the Unrealized Gain (loss) on Contracts heading represent the gain (loss) had the contracts been closed out on December 31.

CREDIT RISK

The Company's exposure to credit risk, principally credit risk from customers, is equal to the carrying amounts of its financial assets. In 2001 and 2000, sales to the Company's largest customer amounted to $64,608,000 and $76,554,000 respectively. The Company is also exposed to credit related losses in the event of nonperformance by the counterparties to its forward currency exchange and interest rate swap contracts, but does not anticipate such nonperformance. The risk of significant credit loss is considered remote.

INTEREST RATE RISK

The Company's exposure to interest rate risk relates to its floating rate long-term debt, which includes the variable interest term debt and the revolving credit facility. The Company utilizes interest rate swaps to reduce risk associated with a portion of the variable interest term debt. As at December 31, 2001 the Company had $6,750,000 (2000 - $13,500,000) of interest rate swaps with a rate fixed of 7.08% plus financing spread of 2%, which expire on July 22, 2003. If the interest rate swap contracts had been closed out on December 31, 2001, the Company would have been required to make a payment of $492,500 (2000 – $360,000). At December 31, 2001, the increase or decrease in annual interest costs on the variable interest term debt not covered by interest rate swaps amounts to $131,000 (2000 - $258,000) for each one percent change in interest rates.

12. TRANSACTIONS WITH RELATED PARTIES

At December 31, 2001, the Company's parent, The Stackpole Corporation, owned approximately 53% (2000 – 57%) of the outstanding common shares of the Company. The Company purchased services from its parent amounting to $581,000 in 2001 (2000 - $534,000). These transactions are in the normal course of business and are valued at a fair market price established by outside parties.

The Company had a net balance due to its parent of $206,000 and $99,000 at December 31, 2001 and 2000, respectively.

13. SEGMENTED INFORMATION

The Company operates in one industry, the design, manufacture and sale of automotive powertrain components and systems for the automotive vehicle manufacturers or their Tier 1 powertrain system suppliers. The Company has developed proprietary technologies in each of its three operating segments, powder metal transmission components, oil pump systems, and roll-formed steel components. Each segment operates in a unique competitive environment with future growth prospects determined by the Company's success in developing and applying the particular technologies to meet the requirements of the Company's global powertrain customers. The determination of operating segments reflects management's approach to assessing the performance and future growth prospects of its businesses and the allocation of resources thereto.

(columnar amounts in thousands of dollars)

(SEGMENTED INFORMATION continued)

In response to the evolution of the Company's focused growth strategy on applying its proprietary process technology, and the alignment of management responsibility to support this growth strategy, financial information by segment has been restated and reported on a new basis commencing with the quarter beginning January 1, 2001.

Certain information with respect to operating segments follows:

Year ended December 31, 2001	Canada		United Kingdom		
	Powder Metal Transmission Components	Oil Pump Systems	Roll-formed Components	Corporate	Total
Sales	$ 155,695	$ 54,718	$ 22,068	$ –	$ 232,481
Inter-segment sales	–	–	(5,239)	–	(5,239)
External sales	155,695	54,718	16,829	–	227,242
Depreciation and amortization	14,690	4,727	2,219	863	22,499
Income (loss) before interest and income taxes	16,969	4,828	(1,968)	1,072	20,901
Interest on long-term debt	–	–	–	3,863	3,863
Property, plant and equipment	94,118	39,693	10,710	1,335	145,856
Total assets	114,105	49,631	18,977	9,214	191,927
Capital expenditures	7,941	7,280	1,064	231	16,516

Year ended December 31, 2000	Canada		United Kingdom		
	Powder Metal Transmission Components	Oil Pump Systems	Roll-formed Components	Corporate	Total
Sales	$ 178,981	$ 56,310	$ 26,962	$ –	$ 262,253
Inter-segment sales	–	–	(8,678)	–	(8,678)
External sales	178,981	56,310	18,284	–	253,575
Depreciation and amortization	15,718	4,352	2,117	1,524	23,711
Income (loss) before interest and income taxes	17,988	4,632	(251)	4,420	26,789
Interest on long-term debt	–	–	–	5,634	5,634
Property, plant and equipment	98,308	37,140	11,533	3,969	150,950
Total assets	118,746	41,468	20,308	24,004	204,526
Capital expenditures	7,292	5,658	711	140	13,801

Canadian sales include export sales of $169,511,000 and $187,076,000 in 2001 and 2000, respectively, virtually all of which were to the United States and Mexico. United Kingdom sales include export sales of $16,829,000 in 2001 and $13,802,000 in 2000.

Sales to the automotive industry were $213,124,000 in 2001 and $242,847,000 in 2000. For 2001, sales to the Company's four largest customers amounted to 28%, 22%, 17% and 16% of total sales (2000 – 30%, 20%, 18% and 17%).

14. COMPARATIVE 2000 FIGURES

Certain of the 2000 figures have been reclassified to conform with the 2001 presentation.

SUMMARY OF QUARTERLY DATA (Unaudited)

(Thousands of dollars except per share amounts)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	$ 52,205	$ 58,800	$ 57,240	$ 58,997	$ 227,242
Income before interest and taxes	1,773	5,313	6,811	7,004	20,901
Net income	370	2,786	3,679	4,302	11,137
Earnings per share	$ 0.04	$ 0.28	$ 0.38	$ 0.45	$ 1.15
Common share trading range					
High	$ 10.00	$ 10.78	$ 13.00	$ 14.25	$ 14.25
Low	$ 7.00	$ 7.25	$ 9.75	$ 10.00	$ 7.00

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Sales	$ 70,086	$ 67,906	$ 60,178	$ 55,405	$ 253,575
Income before interest and taxes	6,473	6,889	8,180	5,247	26,789
Net income	3,074	3,306	5,404	2,668	14,452
Earnings per share	$ 0.32	$ 0.34	$ 0.56	$ 0.28	$ 1.50
Common share trading range					
High	$ 11.00	$ 10.45	$ 13.00	$ 13.00	$ 13.00
Low	$ 7.00	$ 8.05	$ 8.75	$ 6.75	$ 6.75

STACKPOLE LIMITED

TEN YEAR FINANCIAL SUMMARY

Operations Data	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**	**1992**
Sales	**$ 227,242**	$ 253,575	$ 232,943	$ 182,891	$ 164,721	$ 138,590	$ 128,051	$ 106,819	$ 79,435	$ 52,935
R&D, gross	**7,560**	9,026	8,224	7,432	6,743	5,237	4,939	4,400	4,041	2,117
Income before interest, taxes, restructuring and other charges	**20,901**	23,255	11,567	9,082	16,440	14,274	14,013	10,232	9,069	6,411
Net income (loss)	**11,137**	14,452	(5,687)	3,528	8,766	7,502	8,003	6,101	5,689	3,853
Capital expenditures	**16,516**	13,801	34,670	39,670	38,050	22,466	30,350	23,458	16,316	5,316
Cash flows from operating activities	**36,725**	44,335	24,615	23,421	22,227	16,436	12,736	11,747	10,218	4,108
Financial Position										
Working Capital	**$ 17,770**	$ 23,031	$ 18,011	$ 7,417	$ 12,523	$ 16,249	$ 18,450	$ 17,605	$ 26,872	$ 8,551
Property, plant and equipment, at cost	**266,172**	249,832	237,371	209,122	169,926	147,558	126,277	97,048	72,343	45,976
Total assets	**191,927**	204,526	223,864	210,530	178,877	160,912	139,823	112,876	96,904	55,081
Long-term debt	**28,245**	48,866	79,408	58,853	42,508	37,676	25,416	20,576	18,834	–
Shareholders' equity	**122,150**	115,159	101,040	108,774	102,784	92,934	82,489	65,249	57,596	41,787
Key Ratios										
R&D % of sales	**3.3%**	3.6%	3.5%	4.1%	4.1%	3.8%	3.9%	4.1%	5.1%	4.0%
Margin before interest, taxes, restructuring and other charges	**9.2%**	9.2%	5.0%	5.0%	10.0%	10.3%	10.9%	9.6%	11.4%	12.1%
Net income % of sales	**4.9%**	5.7%	-2.4%	1.9%	5.3%	5.4%	6.2%	5.7%	7.2%	7.3%
Return on equity	**9.4%**	13.4%	-5.4%	3.3%	9.0%	8.6%	10.8%	9.9%	11.4%	9.7%
Current ratio	**1.65**	1.80	1.42	1.18	1.44	1.59	1.77	1.90	2.90	2.14
Data per Share *										
Net income	**$ 1.15**	$ 1.50	$ (0.59)	$ 0.37	$ 0.93	$ 0.81	$ 0.95	$ 0.75	$ 0.78	$ 0.64
Operating cash flows	**3.80**	4.62	2.57	2.47	2.36	1.77	1.51	1.43	1.40	0.68
Shareholders' equity	**13.41**	11.96	10.53	11.37	10.87	9.92	8.96	7.97	7.03	6.96

*Per share amounts are calculated as if the share subdivision which occurred in 1993 actually took place at January 1, 1992.

BOARD OF DIRECTORS

John E. Beard
Corporate Director
(Appointed to the Board March 6, 2002)

Richard W. LeVan
Chairman, Wescast Industries Ltd.

Robert J. Lander
President and Chief Executive Officer
Stackpole Limited

J. Samuel Parkhill
Chairman of the Board, Stackpole Limited

Larry J. Pearson
Corporate Director

Darroch A. Robertson
Associate Professor,
Richard Ivey School of Business

David G. Vice
Corporate Director

SENIOR MANAGEMENT TEAM

CORPORATE

Ronald J. Duke
Vice President, Sales

Peter K. Jones
Vice President, Technology

Robert J. Lander
President and Chief Executive Officer

Gary S. Love
Vice President, Finance, Chief Financial Officer, Secretary and Treasurer

James M. Stewart
Vice President, Administration

OPERATIONS

L. Douglas Asbridge
General Manager,
Carrier Systems Division

Eric R. Cozens
General Manager,
Engineered Products Division

David C. Elliott
General Manager,
Automotive Gear Division

Ian McLeod
General Manager,
Pump Components Division

Bryan L. Williams
President and Managing Director,
FormFlo Limited

CORPORATE INFORMATION

STACKPOLE LIMITED
Stackpole Limited was incorporated under the laws of the province of Ontario on November 10, 1952. Upon the completion of an initial public offering in May 1993, Stackpole Limited became a publicly traded Company.

LISTING OF CAPITAL STOCK
The common shares of the Company are listed on The Toronto Stock Exchange under the stock symbol *"SKD"*.

TRANSFER AGENT AND REGISTRAR
The transfer agent and registrar for the common shares of the Company is ***Computershare Investor Services Inc.***

AUDITORS
The shareholders' auditors are ***Deloitte & Touche LLP***, Toronto, Canada.

FINANCIAL CALENDAR 2002

Fiscal year end:	*December 31*
Interim Reports mailed:	*Q1 – May*
	Q2 – August
	Q3 – November

ANNUAL MEETING OF SHAREHOLDERS
The annual meeting of shareholders will be held at ***2:00 p.m., Thursday, May 9, 2002 at the TSE Conference Centre, Toronto Stock Exchange***, The Exchange Tower, Toronto, Ontario, M5X 1J2

SHAREHOLDER ACCOUNT INFORMATION
Shareholders seeking assistance or information concerning their accounts may contact Computershare as follows:

Telephone: ***1-800-663-9097***
Website: ***www.computershare.com***
E-mail: ***caregistryinfo@computershare.com***

ANNUAL INFORMATION FORM
A copy of the Stackpole Limited Annual Information Form is available from the Secretary of the Company upon request at:

2381 Bristol Circle
Suite B-203
Oakville, Ontario
L6H 5S9

INVESTOR INFORMATION
Shareholders seeking assistance or information about the Company are invited to contact:

Gary S. Love, Vice President, Finance,
Chief Financial Officer,
Secretary and Treasurer, at:
2381 Bristol Circle
Suite B-203
Oakville, Ontario
L6H 5S9

Telephone: *(905) 829-2050*
Facsimile: *(905) 829-0438*

Web site: ***www.stackpole.ca***

E-Mail
Secretary: ***glove@stackpole.ca***

CORPORATE DIRECTORY

CORPORATE OFFICE

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Facsimile (416) 252-9996

Automotive Gear Division
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STACKPOLE FACILITIES

Engineered Products Division
Oil pump systems
Mississauga, Ontario
100,000 square feet

Pump Components Division
Oil pump components
Toronto, Ontario
85,000 square feet

Carrier Systems Division
Planetary carrier systems and
power transmission components
Stratford, Ontario
100,000 square feet

Automotive Gear Division
Power transmission components
Mississauga, Ontario
210,000 square feet

FormFlo Limited
Roll formed power
transmission components
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90,000 square feet

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